Exhibit D

FINANCIAL TIMES

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Lehman executive in fund launch

Financial Times
08-May-2008
By Saskia Scholtes and Francesco Guerrera in New York

Rick Rieder, head of Lehman Brothers (NYSE: LEH - News) ' proprietary investment strategies, is raising assets for a hedge fund that will invest in fixed income securities, according to people familiar with the matter.

Lehman Brothers will be a significant but a minority investor in the fund, dubbed R3 Capital Partners, which Mr Rieder hopes to launch at the end of the month.

Lehman Brothers declined to comment.

Head of global principal strategies at the bank since March 2006, Mr Rieder was previously in charge of the bank's global credit business and has been at Lehman Brothers since 1988.

While head of the global credit business, Mr Rieder was widely known among fixed income investors, together with strategist Arthur Tetyevsky, for instituting the bank's regular Tuesday morning trading strategy call.

The call has become a staple for credit market investors with more than 150 large institutional investors regularly dialling in.

Mr Tetyevsky left Lehman Brothers in March 2005 to become head of US credit strategy at HSBC. He left HSBC two months ago. HSBC declined to comment on where Mr Tetyevsky had moved to.

Mr Rieder's move comes as Lehman Brothers is planning to invest up to $1bn in a private equity-style fund that it is launching to buy stakes in hedge fund managers.

The fund, expected to raise up to $5bn and close in June, will give the bank firepower for a wave of predicted fund takeovers as hedge fund managers look for ways to cash in part of the value of their businesses.

In the past two years, several big hedge fund managers floated or sold stakes to banks, including Lehman and Morgan Stanley.

But the credit crunch has made banks less willing to use capital to buy hedge funds and few managers are ready to face the publicity that comes from a listing.

Companies: Lehman Brothers Holdings Inc ;Lehman Brothers Holdings Inc ;

Ticker Symbols: us:LEH; NYSE:LEH;

Industries: Finance & Insurance; Investment Banking & Securities Dealing; Security & Commodity Contracts Intermediation & Brokerage; Security Commodity Contracts & Like Activity;

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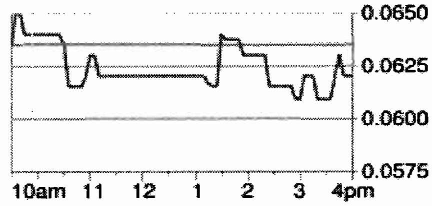

0.0620 **-0.0015** (-2.36%) Aug 16, 3:55PM EDT

Open:	0.06	Volume:	1.61M
High:	0.06	Avg Vol:	1.26M
Low:	0.06	Mkt Cap:	42.72M

PINK data delayed by 15 min. - Disclaimer

harish.kallian...@gmail.com More options Jun 11 2008, 5:27 pm

Can someone throw light into Lehman and R3 capital Partner's relationship. I see that Lehman is a minority stake holder in this hedgefund company owned by a Lehman guy. I also saw that recently
Lehman dumped its huge blockload of shares in a re-insurer Scottish Re
(now a penny stock) these shares were bought by R3. Is this a cyclic
ownership for mere Book keeping ?

Forward

rajemail@gmail.com Vi More options Jun 23 2008, 10:54 am

Harish:

Did you find the answer to this question? I am curious as well.

RG

- Show quoted text -

Forward

msbaw...@gmail.com \ More options Jun 23 2008, 11:30 am

stay away from LEH
its difficult to predict

Forward

traderonwal...@gmail.com View profile More options Jun 23 2008, 2:23 pm

Sounds like some of the goings on that was happening at Bear Stearns prior to the you know what!

- Show quoted text -

Forward

garro...@gmail.com View profile More options Jun 23 2008, 5:19 pm

SHORT-SHORT-SHORT
Can someone learn me how to gets a job on Wal-Street?
I think i haves the experience.
I knows how to read and i also count.
"Investing" in mortgages......lol.
Mort-gage......(mort=dead) eventually it "dies".
Mortages.... where the mortgagees have ga-ga with your money and have
NOT PRODUCED ANY FRIGGIN EVIDENCE THEY CAN REPAY THE MORTGAGE.
Why was the president of Leh not overseeing the fund performance?

Was hee two busy?
Deed hee have maw impawtunt theeengs to do?
Wye cant eye have hees yob?
Why were there are no red flags in place for senior management when the fund manager reduced his personal holdings?
Is there a message here for prosecuting 2 guys for doing their job.
If these guys mislead the public, then..........
Is that any worse than Lehman statements early in the year "They have no need for capital?"
Isnt that what i read?
Why arent those who proudly stated that Lehman's capital requirements was perfectly good, and why arent those who made such statements held equally accountable for misleading?
I'D LIKE TO MEET AN INTELLIGENT INVESTOR WHO THINKS ABOUT "TURNAROUND" when the only thing this business is about is credibility.

Forward

marcinm...@gmail.com View profile — More options Jul 7 2008, 2:53 pm

Mortgage is from the French "Gage(s) a Mort", roughly translating to "Wages till' death"

garro...@gmail.com a écrit :

- Show quoted text -

Forward

End of messages

« Newer discussion - $6billion capital raised: Advice - Older discussion »

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Alternative Investment News

June 16, 2008

LENGTH: 169 words

HEADLINE: Lehman's Rieder Buys USD5B Securities

BODY:

Lehman Brothers Holdings has invested in former trader Rick Rieder's new hedge fund R3 Capital Partners and sold roughly USD5 billion of assets, Bloomberg reports.

Rieder worked at Lehman for 21 years. Most recently as head of the global principal strategies group. Rieder said he bough 75% of the assets for his fund from Lehman, with a mix of corporate bonds and loans, with some distressed debt and aviation stakes. Rieder said the fund will seek out more acquire of the kind.

Lehman CEO Richard Fuld decided to unload assets and raise capital from external investors to trim reliance on debt after the firm's shares plummeted more than 60% about possible losses.

The firm has unloaded USD26 billion of mortgage bonds and leveraged loans, and sold

R3 USD100 million of Lehman's "Level 3" assets. Another buying of Lehman's assets is former executive David Sherr. Scherr acquired about USD5 million from the bank for his hedge fund, One William Street Capital Management, according to people with knowledge of the deal.

LOAD-DATE: August 28, 2008

Wall Street Manna

An irreverent look at Wall Street

Tuesday, June 17, 2008

Lehman's latest...

Here was the latest Lehman spin. It starts with an old Bloomberg lead:

March 20 (Bloomberg) -- *David Sherr, a former Lehman Brothers Holdings Inc. executive, is opening a New York-based hedge fund to trade today's most toxic investments: mortgage bonds and asset-backed securities.*

Sherr, a 21-year Lehman veteran who most recently ran the firm's securitization group, is starting One William Street Capital Management LP after Peloton Partners LLP and Sailfish Capital Partners LLC collapsed because of losses in the credit markets. With the Standard & Poor's 500 Index down 11.6 percent in 2008, Treasury yields at five-year lows and Wall Street firms cutting more than 15,000 jobs, it's a good time for managers with a clean slate to raise money, according to industry executives...

Sherr, 44, expects to start by ***June with more than $1 billion, including backing from his former employer****, said people with knowledge of his plans, who declined to be identified because fundraising hasn't been completed.*
http://www.bloomberg.com/apps/news?pid=20601087&sid=au.befYjYaHk&refer=home

And here:

R3 Capital Partners, header by Rick Rieder of Lehman Brothers, will invest in fixed income securities.
http://hedgefundblog.jobsearchdigest.com/117/this-week-in-hedge-funds-4/

He's Vice Chairman of the Treasury Borrowing Advisory Committee Members.
http://www.ustreas.gov/offices/domestic-finance/debt-management/adv-com/members/

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If we look over at DTC, we see that on May 8, R3 was up and running, with Lehman.
http://www.dtcc.com/downloads/legal/imp_notices/2008/dtc/com/3433-08.pdf

Supposedly the rumour today was that Lehman was offloading assets here. Only problem with the rumour is, the funds aren't big enough, and who would want to burn their reputation on a new fund with Lehman's dreck? It probably got some legs, when Goldman announced that they hadn't reduced any of their Alt-A mortgages in Level 3. If Goldman couldn't unload any; how was Lehman able too? So the above whispers spread. So look for financials, to bounce tomorrow, with Morgan Stanley putting some lipstick on their quarter in the pre-market.

Disregarding rumors, we know that Goldman Sachs announced they pared down their Level 3 assets by over $20 billion. Lehman, which had such "visibility in their "marks" because of all the transactions they did" still is left with almost $40 billion in Level 3 assets. Which begs the question: If you had such visibility on the marks, why didn't the Level 3 assets go down?

Here's what Fuld had to say:

"We had the benefit of much greater price visibility due to the number of assets that were sold especially in the commercial and residential mortgage area that were the result of our deleveraging and the strong trading volumes in the cash, and then certain derivative markets that gave us important additional valuation information."

You start with $40 billion in level 3, and you sell $3 billion, that get's you to $37 billion. You write down the $37 billion by $2 billion, and now you have $35 billion. Now transfer in another $3.5 billion of Level 2 assets, of which you don't like their pricing into Level 3, and you have Lehman's quarter.

I guess visibility is only measured when it's convenient. And Goldman's visibility in the market's direction is apparently a lot better then Lehman's. But don't shine the light on Lehman's balance sheet just yet!

Wait until the next capital raise!

Posted by Palmoni at ***6:44 PM***

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	USD/CAD	1.0425	1.0430
	USD/JPY	85.230	85.250
	USD/CHF	1.0378	1.0381
	AUD/USD	0.8967	0.8971
	EUR/GBP	0.8189	0.8193
	EUR/CHF	1.3305	1.3310
	EUR/JPY	109.27	109.31
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An irreverent look at Wall Street

Wednesday, June 18, 2008

Lehman sells $5B of assets to hedge fund it invested in!

WTF? The story on Bloomberg:

Lehman's Rieder Took $5 Billion of Assets With Him to New Fund

By Yalman Onaran

June 18 (Bloomberg) -- Lehman Brothers Holdings Inc. invested in former trader Rick Rieder's new hedge fund and sold it about $5 billion of assets, positioning the investment bank to profit from the stakes while shrinking its own balance sheet.

Lehman, the fourth-biggest U.S. securities firm, is a minority investor in the fund, R3 Capital Partners, said Rieder who declined to say how much capital he has raised from his former employer or outside investors. Lehman spokeswoman Kerrie Cohen declined to comment.

``These are assets we feel very comfortable with,'' Rieder, 46, said in an interview today. ``They have terrific potential for great returns. Just like other shareholders, Lehman will benefit from the returns we'll make going forward.''

Rieder, a 21-year Lehman veteran, most recently ran Global Principal Strategies, investing in credit arbitrage, aviation finance and private equity, and left the firm last month to start R3. Lehman sold $147 billion of assets in the three months ending May as it hunkered down to weather the credit crisis.

Rieder said 75 percent of the assets his fund bought were corporate bonds and loans. There are also some distressed debt and aviation assets in the mix, two other areas he focused on while at Lehman. While it was easier to start with the assets he had managed as a trader at Lehman, he plans to expand along the same asset classes, Rieder said.
http://www.bloomberg.com/apps/news?

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pid=20601087&sid=a0gOSkI9SNE0&refer=home

Here was the story and the rumors.
http://aaronandmoses.blogspot.com/2008/06/lehmans-latest.html

It looks like it was true! Are you kidding me? This is a just a way for Lehman to have an off-balance sheet SIV.

What a crock of manure!

Posted by Palmoni at ***4:57 PM***

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Bloomberg

Lehman's Rieder Brought $5 Billion of Assets to Fund (Update1)

By Yalman Onaran - Jun 18, 2008

June 18 (Bloomberg) -- Lehman Brothers Holdings Inc. invested in former trader Rick Rieder's new hedge fund and sold it about $5 billion of assets, positioning the investment bank to profit from the stakes while shrinking its own balance sheet.

Lehman, the fourth-biggest U.S. securities firm, is a minority investor in the fund, called R3 Capital Partners, Rieder said. He declined to say how much money he raised from his former employer or outside investors. Lehman spokeswoman Kerrie Cohen declined to comment.

``These are assets we feel very comfortable with," Rieder, 46, said in an interview today. ``They have terrific potential for great returns. Just like other shareholders, Lehman will benefit from the returns we'll make going forward."

The 21-year Lehman veteran most recently ran the global principal strategies group, investing in credit arbitrage, aviation finance and private equity, and left the firm last month to start R3 in New York. Lehman, which reported a $2.8 billion second-quarter loss earlier this week, sold $147 billion of assets in the three months ended May 30 as it hunkered down to weather the credit crisis.

Rieder said 75 percent of the assets his fund bought from Lehman were corporate bonds and loans. There were also some distressed debt and aviation stakes in the mix, two other areas he focused on while at Lehman. The fund will continue to acquire similar holdings in the marketplace, Rieder said.

Lehman Chief Executive Officer Richard Fuld decided to unload assets and raise capital from outside investors to reduce reliance on debt after the firm's shares fell more than 60 percent on speculation the company faced mounting mortgage- related losses.

Level 3 Assets

Among the assets sold during the past quarter were $26 billion of mortgage bonds and leveraged loans, which have plummeted in value during a credit-market contraction that has saddled banks and brokerages worldwide with about $396 billion of losses.

R3 bought about $100 million of Lehman's so-called Level 3 assets, which are the hardest to value because market prices are scarce, according to people familiar with the matter. Many of the firm's mortgage-related holdings are categorized as Level 3, along with other distressed debt.

Lehman sold $3.5 billion of Level 3 assets during the quarter, the firm's finance chief, Ian Lowitt, told analysts in a June 16 conference call.

David Sherr, another former Lehman executive who set up his own hedge fund, bought less than $5 million of assets from Lehman, according to people with knowledge of the transaction. His New York-based fund, One William Street Capital Management, has about $500 million under management.

Sherr, who headed Lehman's securitization division until he left the firm in December, didn't reply to a phone call seeking comment.

To contact the reporter on this story: Yalman Onaran in New York at yonaran@bloomberg.net.

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June 19, 2008 Thursday 8:10 AM EST

LENGTH: 150 words

HEADLINE: LEH: Periodicals

BODY:

08:10 EDT Lehman's Rieder's hedge fund sold about $5B of assets-Bloomberg - Bloomberg reports that R3 Capital Partners, a new hedge fund of Rick Rieder's, a former trader at Lehman Brothers (LEH), bought from Lehman about $5B of assets. Lehman, a minority investor in the fund, is positioned to profit from the stakes going forward. Rieder has said that 75% of the assets R3 Capital bought were corporate bonds and loans. [Reference Link]:[http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aJUrsKxNdHbM]

As of Sunday, 06-15-2008 23:59, the latest Comtex SmarTrend® Alert, an automated pattern recognition system, indicated a DOWNTREND on 05-21-2008 for LEH @ $40.53. For more information on SmarTrend, contact your market data provider or go to www.mysmartrend.com SmarTrend is a registered trademark of Comtex News Network, Inc. Copyright © 2004-2008 Comtex News Network, Inc. All rights reserved.

LOAD-DATE: June 20, 2008

Market Pipeline

Thursday, June 19, 2008

Lehman sold $5 billion of assets to investee hedge fund

A Bloomberg article shed some light on a story passed to us, namely that some of the Lehman asset sales had been achieved via transfers to 2 funds in which Lehman retained an economic interest. While we indicated that our information fell in the category of a rumor, since it came from a single source and the information was not of the sort that could be readily corroborated, the Bloomberg article confirms many of the elements he presented.

Lehman did indeed sell $5 billion of assets to a fund in which the investment bank has an economic interest, R3 Capital Partners, and its founder was indeed the former head of Lehman's principal investing group. The disparity with our report was that the amount alleged to have been sold was much greater, $55 billion versus the $5 billion in the Bloomberg story. However, this $5 billion is material relative to the $70 billion of net asset sales Lehman reported for the last quarter and begs the question of whether it should have been disclosed in the supplemental information provided at the same time as the earnings press release. We hope that the 10-Q filing, which will contain the balance sheet and footnores, will be more forthcoming.

The second fund mentioned in the earlier post, One William Street, is also run by a former Lehman staffer, as our source had indicated. However, the Bloomberg piece is silent on whether Lehman in an investor in this fund or not. The Bloomberg story says the assets sold by Lehman to that fund were a mere $5 million.

Note that while this information is very helpful, it still leaves unanswered the question of how Lehman achieved these sales, particularly since they were spread across a wide

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range of instrument types and credit qualities. The markets are still difficult; it is normally much easier to sell better rated paper at decent prices than lesser rated instruments. Even if Lehman's marks were reasonable assuming small transaction sizes, larger sales generally have a negative market impact and thus could lead to losses upon disposition (and have the unfortunate side effect of forcing Lehman to mark down remaining positions similar in type). Other banks have financed sales of leveraged loans and some Alt-A portfolios. It isn't out of the question that some of the other assets sold by Lehman were financed or placed with entities in which the firm has an economic interest.

From Bloomberg:

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Posted by Cormick Grimshaw at 5:22 AM

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Hedge Funds

Lehman Sells Assets to Ex-Trader's New Fund

June 19, 2008, *7:29 am*

Lehman Brothers invested in a new hedge fund run by its former trader, Rick Rieder, and sold it about $5 billion of assets, Bloomberg News reported. It said the move positioned Lehman "to profit from the stakes while shrinking its own balance sheet."

Lehman, the fourth-biggest United States securities firm, is a minority investor in the New York-based fund, called **R3 Capital Partners**, Mr. Rieder told Bloomberg.

However, he declined to say how much money he raised from his former employer or outside investors.

Mr. Reider, who spent 21 years at Lehman, most recently ran the global principal strategies group, investing in credit arbitrage, aviation finance and private equity. He left the firm last month. Mr. Rieder told Bloomberg that 75 percent of the assets his fund bought from Lehman were corporate bonds and loans.

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1.1. June 19, 2008 1:40 pm Link

more hijinx by Wall Street

Lehman can't have the guts to get out, they have to keep their finger in the pie

how can ANYONE trust what Wall Street does

— *Kate Goldman*

2.2. September 11, 2008 11:45 pm Link

I certainly hope that Bank of America and the SEC investigate the relationships with R3 Capital Partners and Lehman. I have seen first hand how these companies operate and it is definitely not at "arms length". Current R3 Capital Partner employees are directly managing assets that are on Lehman's balance sheet. There relation seems a little dubious to say the least and certainly warrants further investigation.

— *Concerned Citizen*

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Lehman's Rieder Buys USD5B Securities

JUNE 19, 2008

Lehman Brothers Holdings has invested in former trader Rick Rieder's new hedge fund R3 Capital Partners and sold roughly USD5 billion of assets, Bloomberg reports.

Lehman Brothers Holdings has invested in former trader **Rick Rieder**'s new hedge fund **R3 Capital Partners** and sold roughly USD5 billion of assets, *Bloomberg* reports.

Rieder worked at Lehman for 21 years. Most recently as head of the global principal strategies group. Rieder said he bough 75% of the assets for his fund from Lehman, with a mix of corporate bonds and loans, with some distressed debt and aviation stakes. Rieder said the fund will seek out more acquire of the kind.

Lehman CEO **Richard Fuld** decided to unload assets and raise capital from external investors to trim reliance on debt after the firm's shares plummeted more than 60% about possible losses.

The firm has unloaded USD26 billion of mortgage bonds and leveraged loans, and sold

R3 USD100 million of Lehman's "Level 3" assets. Another buying of Lehman's assets is former executive **David Sherr**. Scherr acquired about USD5 million from the bank for his hedge fund, **One William Street Capital Management**, according to people with knowledge of the deal.

This article was originally published in Alternative Investment News.

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Ex-Lehman Trader Launches Hedge Fund

Jun 20 2008 | 9:54am ET

A former Lehman Brothers trader's new hedge fund is helping out his old firm.

Rick Rieder left Lehman last month to found R3 Capital Partners in New York. Lehman invested in the new debt strategies fund, and R3 returned the favor by taking some of Lehman's positions off its hands (and balance sheet).

R3 has bought $5 billion in assets from Lehman, mostly corporate bonds and loans, but also distressed debt and aviation assets. The fund will focus on buying similar assets in the marketplace, according to Rieder, who ran Lehman's global principal strategies group, focusing on credit arbitrage, aviation finance and private equity.

Among the $5 billion in assets Lehman offloaded on R3 were about $100 million of "Level 3" assets, the hardest to value.

Source URL:
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Bloomberg

Lehman's Hedge-Fund Deals Leave Public in Dark: Jonathan Weil

Commentary by Jonathan Weil - Jul 03, 2008

July 3 (Bloomberg) -- So let's say you're a big shot at Lehman Brothers Holdings Inc., trying to keep your firm from becoming the next Bear Stearns Cos. The stock has tanked. The market has doubts about your balance sheet. What do you do?

One step to avoid would be any action that might create needless public uncertainty about your company's finances, because investors' greatest fear is of the unknown.

So what does Lehman do? It sells billions of dollars of assets to a newly formed hedge fund that:

1) counts Lehman as a significant investor;

2) is run by seven recently departed Lehman executives;

3) is operating out of Lehman's office space, three floors down from the office of Lehman's corporate secretary.

You don't need to know much more about Lehman's transactions with the fund, R3 Capital Partners, to see the problem.

There's no way for outsiders to ascertain whether Lehman's dealings with R3 were at arm's length, as Lehman and R3 say they were. And the last thing Lehman needs is for skeptical investors to be worrying about whether it is engaging in any opaque related- party transactions.

Lehman isn't providing much information about its dealings with R3, and hasn't mentioned the fund in its Securities and Exchange Commission filings. Some details about their relationship have been trickling out in news reports, including a June 18 article by Bloomberg News reporter Yalman Onaran.

Here are the basic facts I was able to gather:

Unidentified Investor

As of June 12, one fund managed by R3 had raised $1.08 billion from a single unidentified investor and was seeking to raise $4 billion more from others, according to a Form D disclosure that R3 filed with the SEC.

Lehman has invested about $1 billion in R3, said Thor Valdmanis, a spokesman at R3's public relations firm, FD. (After he told me this, Valdmanis asked me not to use the information, saying he wasn't authorized to divulge it.)

Later, in a written response to my questions, R3 said it ``is a wholly independent fund and has raised money from a variety of outside investors'' and that Lehman ``is one of several passive, minority investors in the fund.''

A Lehman spokeswoman, Catherine Jones, declined to say whether Lehman was the unidentified investor cited in R3's SEC filing. Jones said Lehman ``has sold approximately $4.5 billion of assets to R3 since its inception in May 2008,'' all of which ``were previously managed by R3 Capital team members when they worked at Lehman.''

`No Control Rights'

Jones declined to say whether the $4.5 billion was how much R3 paid for the assets or the value at which Lehman had been carrying them on its balance sheet. She also declined to say whether Lehman will treat R3 as a related party for accounting purposes. Companies must disclose the effects that any material related-party transactions have on their financial statements, under generally accepted accounting principles.

``R3 is an independently managed fund in which Lehman Brothers is a limited partner and holds a passive, minority stake in the general partner,'' Lehman said in a July 1 statement read over the telephone by Andrew Gowers, a spokesman. ``Lehman Brothers has no control rights, and all transactions are on an arm's-length basis.''

So, what are we supposed to make of all this? Beats me.

We have no idea if Lehman recorded gains or losses on these sales, how much money R3 paid for the assets, where it got the money to buy the assets, or the fiscal quarter in which the sales occurred. We don't know whether Lehman plans to disclose any of this. There is no way to determine with the information available whether this is a related-party deal.

Lack of Clarity

Even with more information, the relationship might not be transparent. The trouble with related-party deals -- if that's what these are -- is that they ``cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist," as Financial Accounting Standard No. 57 says.

Under the accounting rules, if Lehman's stake in R3 were 20 percent or greater, this would lead to a presumption that Lehman could exercise significant influence over its policies. In that case, R3 probably would be deemed a related party.

As for the space R3 occupies on the 39th floor of the Time & Life Building in midtown Manhattan, it's in the middle of a 10- floor block Lehman began subleasing from Time Inc. last year. R3 and Lehman say the fund is paying rent to Lehman at market rates.

Letter From CEO

R3's chief executive officer, Rick Rieder, a 21-year Lehman veteran, sent me a letter explaining that the name R3 comes from the phrase ``Reading, wRiting and aRithmetic."

He wrote that the fund's creation ``was in discussion for years," that he won't take a bonus from R3 this year, and that ``a substantial portion of future profits" will go to a new foundation to support ``improvement in urban education in this country and abroad, a cause I have long supported."

That's all nice stuff. What's important about R3 to Lehman investors, though, is how the transactions affect Lehman's financial statements. Lehman is scheduled to file its second- quarter earnings report with the SEC later this month.

``Based on the information that's publicly available, you can't tell whether these are related parties, although there are indications there could be significant influence," said Douglas Carmichael, the former chief auditor of the Public Company Accounting Oversight Board, now an accounting professor at Baruch College in New York and a litigation consultant.

And there lies the problem: You just can't tell. That won't keep investors from forming their own conclusions. If Lehman doesn't like what they decide, it will have only itself to blame.

(Jonathan Weil is a Bloomberg News columnist. The opinions expressed are his own.)

To contact the writer of this column: Jonathan Weil in Boulder, Colorado, at jweil6@bloomberg.net

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Thursday, July 3, 2008

Bloomberg's Jonathan Weil Probes Lehman-R3 Hedge Fund Relationship

Readers may recall that this humble blog, thanks to the information provided by a former senior person at Lehman, reported that some of the investment bank's wondrous deleveraging (it was well distributed across products, geographies, and credit quality) was due to asset sales to newly formed hedge funds, R3 Capital Partner and One Williams Street, which had former Lehman MDs at the helm and in which the firm was a significant investor.

That of course begged many questions: were the sales really arm's length? Were any financed? And if either of these funds got into difficulty, would Lehman wind up rescuing them?

The amount we believe was sold to One Williams Street was trivial, but Lehman confirmed that $5 billion went to R3, which isn't chump change.

Bloomberg's Jonathan Weil dug deeper and does not like what he found, or perhaps more accurately, what he didn't find, thanks to the stonewalling he encountered in his efforts to get to the bottom of the two firms' arrangements. From Bloomberg:

> So let's say you're a big shot at Lehman Brothers Holdings Inc., trying to keep your firm from becoming the next Bear Stearns Cos. The stock has tanked. The market has doubts about your balance sheet. What do you do?
>
> One step to avoid would be any action that might create needless public uncertainty about your company's finances, because investors' greatest fear is of the unknown.
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And there lies the problem: You just can't tell. That won't keep investors from forming their own conclusions. If Lehman doesn't like what they decide, it will have only itself to blame.

Two other factoids: one reader said that R3 is Lehman's internal designation for restricted stock. The Bloomberg article that ran earlier said that Lehman would get upside benefit if the assets sold to R3 did well. That of course could simply be a general statement that would pertain to any investor, or could refer to arrangements between Lehman and the fund regarding those assets.

Our source, who proved largely accurate on other details regarding the hedge funds, also said R3 employees who departed Lehman would continue vesting any Lehman restricted stock they held. If true, that is a highly unusual arrangement.

More on this topic (What's this?)

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Topics: Investment banks, Media watch

Email This Post Posted by Yves Smith at 4:04 am

8 Comments » Links to this post

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8 Comments:

- *Anonymous* says:
July 3, 2008 at 6:58 am

Sounds like Lehman and R3 have concluded that the Cheney values on disclosure — namely, "Never do it" — trump generally accepted accounting principles and all other form of related practices.

Hey, why not?

We can not expect to benefit from the power of free markets if we insist on any form of regulation of those markets. So quit whining about transparency and let free markets prevail!!

- *Independent Accountant* says:
July 3, 2008 at 7:05 am

Take a look at Citigroup's $800 million purchase of Old Lane from Vikram Pandit & Co. What really happened there? What did Citigroup buy? I suspect the sales Weil is questioning were just "accounting maneuvers" like those we saw at Enron. Or GM's having Delphi assume some of its pension liabilities.

- *Skeptical* says:
July 3, 2008 at 11:05 am

Has it been disclosed whether Lehman Brothers will act as Prime Broker for R3 as it does for One William Street (Dave Sherr's fund)? If so, in addition to keeping things close to home, it could be bc none of the other large broker-dealers wants to take its clearing risk.

Just asking.

- *Anonymous* says:

July 3, 2008 at 3:17 pm

Come on, these guys used SIVs with unspoken agreements and haven't been arrested, why wouldn't they do it again under a different name?When Boesky did it, it was called stock parking. How else do you think these guys sold these bad CDOs at the height of the debacle? They deleveraged by selling to themselves. It's the Emperor's New Clothes of the Financial World, winked at by the authorities.

- *Lune* says:

July 3, 2008 at 7:09 pm

All eyes will be on the earnings report this month. What baffles me is that Lehman's top brass are risking jail time engaging in practices which will probably just delay the inevitable BK by a few months.

When the new administration comes into power, be it McCain or Obama, I suspect there will be a very public hunt for fall guys for this mess. They've already started with BSC. Now why would you risk going to jail when you could just wind up the firm now, keep all your bonuses, probably get a nice severance package to boot, and leave shareholders and the Fed with the mess while you go off and start a new distressed asset fund in the Caymans or something?

- *Anonymous* says:

July 3, 2008 at 8:47 pm

And these are the slime-balls that the Fed is loaning Treasury Notes in exchange for whatever toxic sludge they want to get rid of. The Government should not be loaning our money (I know the Fed is private, but who will the Fed turn to when the SHTF) to non-regulated institutions that will not answer questions. They dont want the regulation so they can be free. Let them be free to fail without taxpayer help.

- *Anonymous* says:

July 3, 2008 at 10:19 pm

As this is obviously a material transaction, how is it not law that the details of the transaction not be released? The fact this institution can operate in this fashion without it being in breach of some SEC disclosure regulation is astounding to me.

- *Anonymous* says:

July 5, 2008 at 7:10 am

One factual error (small) in this blog- it is not highly unusual for a dealer to allow stock to continue to vest to an employee who departs to a client. In this case 'client'...

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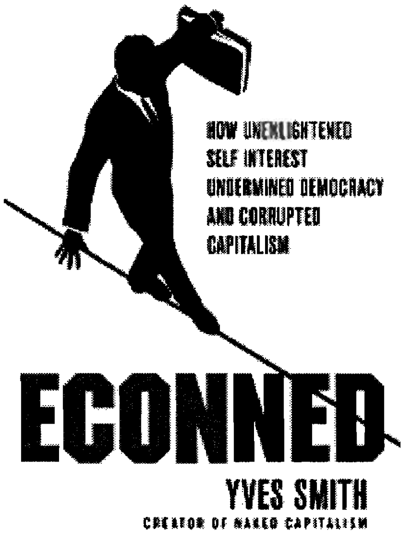

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All Right, Now This Is Shady, Lehman Brothers

By Morgan Housel | More Articles
July 7, 2008 | Comments (0)

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

You'd think those famous words by Warren Buffett would resonate throughout the business world. For firms operating in the financial services industry -- where few companies seem to have a clue what lies inside their own books, let alone their neighbors' -- how the market perceives your actions should be priority No.1.

When you're **Lehman Brothers** (NYSE: LEH), this rule should be taken to the extreme. Short sellers are on the prowl, investors have lost hope, and a string of pathetic results have left the company staring eye-to-eye with trouble.

***Shhh* ... they'll never know ...**

According to *Bloomberg*, Lehman has sold around $4.5 billion worth of assets to a newly formed hedge fund named R3 Capital Partners since May. That alone isn't a problem; Lehman has truckloads of assets it should probably shed. What amounts to Enron-esque shadiness, however, is that R3 is run by a team of recently departed Lehman employees, is run out of Lehman Brothers' office space, and, drumroll please ... counts Lehman Brothers as a significant investor.

It's not difficult to guess what's going on here: Assets that wouldn't fetch potato chips in the open market can be sold to R3 which, as a hedge fund, can largely keep quiet about its dealings. Compared to Lehman -- which practically has to disclose to the SEC whenever top

executives use the bathroom -- R3 could be a pretty snazzy game of "catch me if you can."

Now, there's really no evidence to suggest that's what's going on. More importantly, that's the problem; there's really no information outside of Lehman having a seriously questionable relationship with R3. The lack of specifics gives already nervous investors reason to panic. One of the few things an insider has acknowledged is that Lehman has invested about $1 billion in R3.

Mmm-hmm ...

The question now becomes, if there really is *nothing* sketchy about Lehman's relationship with R3, why in the world is Lehman making a $1 billion investment in the first place? For the love of Pete, Lehman's liquidity has been the topic of who knows how many short-selling gossip circles -- the last thing on Lehman's to-do list should be making strategic investments into hedge funds. Lehman needs to hang on to two things to make it in the short term: cash and reputation. Regardless of the outcome, its investment in R3 has squandered both.

Come on, Lehman. Even the big dogs like **Goldman Sachs** (NYSE: GS) and **Bank of America** (NYSE: BAC) are being slaughtered right now. When you're at the bottom of the food chain, the last thing you want to do is make yourself more vulnerable to attack.

For related Foolishness:

- You're a Sneaky One, Lehman Brothers
- How Lehman Played Musical Chairs With Its Loans
- Lehman, You Just Don't Get It!

Fool contributor Morgan Housel doesn't own shares in any of the companies mentioned in this article. Bank of America is a Motley Fool Income Investor recommendation. The Fool has a disclosure policy.

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All Right, Now This Is Shady, Lehman Brothers (LEH) Page 4 of 5

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Re: R3 Capital Partners Master/L/P = doom for (LEH)

1-Jul-08 11:03 pm

dougklasstw...

Guess who funded the hedge fund? Leh was putting money in and getting high net worth clients too kick in. Guess what? Leh tried a off balance sheet transaction and now they are caught

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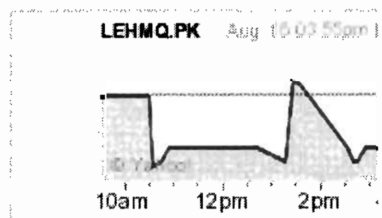

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August 16, 2010

Enhance your web experience! Huffpost recommends that users upgrade to the latest version of Internet Explorer.

Max Keiser

Presents "On the Edge" for AP/Press TV

Posted: July 9, 2008 10:06 AM

Peek-A-Boo Accounting and the Crash of Financial Stocks on Wall Street

Since it was discovered that Enron was hiding debt off their balance sheet to make their earnings, stock and stock options go up, Wall Street has decided they can't get enough of this neat trick and every quarter we see more of it.

It's peek-a-boo accounting where debts are removed from the balance sheet during the period when disclosure is needed (for quarterly earnings reports) and than the debt is temporarily parked back onto the company's balance sheet, or parked on another bank's balance sheet with an implied reciprocal agreement. (Enron had hundreds of shell companies that served as 'debt parking lots' to avoid having to include any liabilities on their quarterly earnings statement).

Lehman Brothers looks like they are trying to out-Enron Enron in the peek-a-boo accounting department.

According to Bloomberg, Lehman, who has come under scrutiny for dealing in worthless

"marked-to-model" paper euphemistically referred to as "bonds" has sold $4.5 billion worth of "assets" to a newly formed hedge fund named R3 Capital Partners. R3 is run by recently departed Lehman employees. It's run out of Lehman Brothers' office space and Lehman itself is an investor.

Peek-a-boo, I see you. That's right, Lehman is scheduled to report quarterly earnings this week.

Is it any wonder the short positions in Lehman's stock are so big? Is it any wonder these companies are crashing?

Wall Street loves capitalism on the way up, but when it comes time to deal with a down market, they embrace socialism faster than Trotsky.

They want to keep all the reward on the way up and share (or give away) all the risk on the way down as America is learning every time they fill up their gas tank or shop for groceries.

The cost of the government cleaning up the Lehman Brothers messes is to print more money and this means less purchasing power aka inflation for the proletariat drones living in their cars.

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Thursday, July 31, 2008

Jonathan Weil: Lehman Needs to Come Clean About R3

Readers may remember that this blog broke the story, thanks to information provided by a former senior Lehman employee, that some of the asset sales in Lehman's touted second quarter deleveraging were in fact to a newly formed hedge fund, R3 Capital, staffed by former Lehman MDs and employees, that not only has Lehman as an investor, but reportedly also has Lehman retaining an economic interest in the assets sold. Moreover, the former employee charged, based on information provided by several people at Lehman, that the R3 employees' restricted stock was still vesting on its original schedule, as if they were still on the firms' payroll. If true, this is both highly unusual and costly.

Jonathan Weil at Bloomberg has taken an interest in the R3 question and is not letting the investment bank off the hook. As this story makes abundantly clear, he thinks Lehman has been far less forthcoming than it needs to be. That suggests the firm may be trying to hide the fact that R3 is a related party, which in turn would mean the supposed asset sales might be viewed by investors as anything but. Note that the Bloomberg story also confirms the former staffer's intelligence about the restricted stock.

Reader Marielle, who e-mailed us about this story, drily noted, "Makes you wonder why Merrill sold to Lodestar when they could have just created an S3."

From Bloomberg:

> The more you learn about Lehman Brothers Holdings Inc.'s relationship with R3 Capital Partners, the more it looks as if Lehman may not be telling investors all they need to know.
>
> When Lehman filed its second-quarter financial statements three weeks ago, it was the first time the securities firm disclosed its $1.1 billion investment in R3, the hedge fund that Rick Rieder and other former Lehman executives started in May. Lehman's report gave few

> details, though it did say Lehman sold R3 lots of assets last quarter. The big question is whether Lehman, which also is R3's landlord, disclosed enough.
>
> To help answer that, consider some of the disclosures R3 made in a private-placement memorandum this month for prospective investors, a copy of which I reviewed. They go to a critical issue: Are R3 and Lehman related parties?
>
> Under the rules known as Financial Accounting Standard No. 57, the answer would be yes, if Lehman has the ability to "significantly influence the management or operating policies" of R3. Based on the statements in R3's memo, it looks to me as though Lehman does. Lehman and R3 demur.
>
> The 110-page memo includes six pages describing "actual and potential conflicts of interest" arising from R3's relationship with Lehman. For instance, it says that "LB (Lehman Brothers) interests may comprise as much as 48 percent of the net asset value of the master fund." As a result, "a withdrawal of all or a substantial portion of the LB interests could have an adverse effect on the fund as a whole and its ability to pursue its strategy."
>
> R3 also said its executives may continue to own Lehman restricted stock that they received during their previous jobs, which "may influence the principals' dealings with LB as well as their investment decisions." In other words, R3 might be prevented from fully pursuing its own separate interests.
>
> Ed Ketz, an accounting professor at Pennsylvania State University, said Lehman's potential 48 percent stake in R3's master fund by itself would be "significant influence in anybody's book," even without voting rights.

I am quite certain that Felix Rohatyn, now a senior advisor to Lehman, has said publicly (apropos investments by sovereign wealth funds) that a passive investment would still give the owner influence. I cannot recall whether the level Rohatyn discusses was 10% or 20%, but it was way below the 48% in question.

> Here's why details like those matter. Under FAS 57, if R3 is a related party, then Lehman should have disclosed enough information about its R3 transactions so that an outside reader could gain "an understanding of the effects of the transactions on the financial statements." Lehman didn't do this….
>
> Here's what Lehman did disclose about R3: During the second quarter, it acquired "non-voting, minority ownership stakes" in R3's master fund, general partner, special limited partner and management company. As of May 31, its investment was $1.1 billion. Lehman said it "sold assets and transferred derivative risk of approximately $4.5 billion at fair value to R3" last quarter. The assets primarily were corporate bonds and loans….
>
> Ultimately, the question of "significant influence" is a judgment call. Even if an investor's stake is small, that doesn't necessarily preclude the investor from having a lot of sway. Likewise, the test for identifying related parties isn't whether one party is influencing the other's management or policies now. The test is whether it can.
>
> In its memo, R3 says it will hire Lehman to perform "marketing, financing, derivatives

intermediation and trading, prime brokerage, placement agent, price verification, risk control and information technology services." Its six principals all came from Lehman, as did the 10 other key professionals it listed.

R3 also said that Lehman "may come into possession of material, non-public information" that "could limit the ability of the fund to buy and sell investments." Consequently, "the investment flexibility of the fund may be constrained as a result of the advisor's relationship with LB." It's hard to understand why any insider knowledge Lehman has would be imputed to R3 if they weren't related.

Lehman also "will have greater access to information" than other R3 investors about the fund, which Lehman can use in deciding whether to withdraw its investment, and in recommending to clients whether they should, too.

Significant influence or not, it sure looks like Lehman has a lot of pull. Meantime, investors can only wonder what information Lehman isn't disclosing about its dealings with R3.

They shouldn't have to.

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Topics: Investment banks

Email This Post Posted by Yves Smith at 9:07 am

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17 Comments:

- *Ginger Yellow* says:
July 31, 2008 at 10:40 am

Who are Lehman's auditors? Surely Weil should be asking them these questions.

- *Bob_in_MA* says:
July 31, 2008 at 10:59 am

Between this nonsense and he Merrill manipulation of their faux sale of CDOs, it's clear we're turning Japanese. Financials will finally be safe to invest in around 2020.

- *doc holiday* says:

July 31, 2008 at 11:24 am

I'm curious as to how EPS is being manipulated with dividends and share buy backs and of course option grants; thus the CDOs, SIVs and synthetic trash that falls into QSPEs and Level 3 are still very mystifying! Any clues out there as to how to value stocks?

>> …stock repurchases have a direct, mechanical impact on reported
EPS that is determined by three factors: the timing of the repurchase, the proportion of share bought back,
and the financial return forfeited on the funds used to buy back shares. The first two factors are responsible
for a reduction in the EPS numerator, but the third factor (forfeited return) decreases the EPS numerator.
The net result is that some stock repurchase increase reported EPS while other repurchases decrease EPS.

From: Stock Repurchases as an Earnings Management Device

Paul Hribara, Nicole Thorne Jenkinsb, W. Bruce Johnson

- *doc holiday* says:

July 31, 2008 at 11:31 am

Maybe this will make sense?

Re: Jan 29, 2008

Lehman Brothers Holdings Inc the Wall Street investment bank, on Tuesday raised its common stock dividend 13 percent and said its board of directors authorized the buyback of up to 100 million shares.

The quarterly dividend will rise to 17 cents per share from 15 cents. Lehman said the higher dividend is payable on Feb 22 to shareholders of record as of Feb 15.

New York-based Lehman said the buyback program covers nearly 19 percent of its 530.6 million shares outstanding at year end, and supersedes a prior authorization.

The shares covered by the new program are worth about $6.25 billion, based on Lehman's Tuesday closing price. Lehman shares rose $1.90, or 3.1 percent, on Tuesday to close at $62.53 on the New York Stock Exchange.

- *doc holiday* says:

July 31, 2008 at 12:19 pm

FYI (as a contrast): Re: December 18, 2007

Goldman bought back 41.2 million shares at $217.29 apiece in the 12 months ended last month. In the fourth quarter alone, it bought back 11.6 million shares at an average of $230.65 each.

With Goldman's shares closing at $208.63 yesterday, the firm lost about $350 million on the investment.

And Goldman is undaunted. Its board just Monday authorized the repurchase of another 60 million shares. Given that betting against the firm's brain trust has rarely been profitable in the past, Goldman's paper losses on its own stock may be shortlived.

- *Anonymous* says:
July 31, 2008 at 12:36 pm

Maybe I got it all wrong,but with both Lehman and Goldman able to borrow Fed funds on faux collateral.
Does this mean that the Fed (us!) are lending money to them to buyback their own stock?
Is this OK with the FED?

- *Caleb Mardini* says:
July 31, 2008 at 12:37 pm

This is really good stuff on Weil's and Naked Capitolism's part.

But why is no one mentioning Enron and Chewco. I did a little comparison at the end of my post on the subject.

- *Fledermaus* says:
July 31, 2008 at 1:17 pm

Aw Caleb got there first. But I was going to say that this looks a lot like the enron SPE deals to get a bunch of dogs off their books for a quarter or two. IIRC Enron then bought them back ask paid off the insiders for their troubles.

- *mxq* says:
July 31, 2008 at 1:22 pm

Caleb…i was thinking the same thing! Raptors, too!

Conspiracy of Fools pt. 2?

- *doc holiday* says:
July 31, 2008 at 2:22 pm

OK, good, I like progressive thinking!

Enron is a fine model to use for share buybacks and look for peas under different shells!

Re: (: October 27, 2001) The Enron Corporation, trying to reassure investors that it has ample liquidity,

began to repurchase all its outstanding commercial paper yesterday, using $3.3 billion it borrowed from banks by depleting its lines of credit.

http://query.nytimes.com/gst/fullpage.html?res=980CE7DF1E31F934A15753C1A9679C8B63

An Enron spokesman said that when the commercial paper repurchases are completed the company will retain more than $1 billion in cash.

The moves did not appear to reassure investors, as Enron's share price fell to another six-year low. Shares traded as low as $15.04 yesterday, before ending the day at $15.40, down 95 cents.

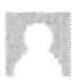
This is all bout capital structure, so any help with this puzzle is appreciated; make Yves proud and use her blog to break the pirates!

-  *Anonymous* says:
July 31, 2008 at 2:29 pm

FYI:

From December 1997through December 2000, Kopper received $2 million in "management" and other feesrelating to Chewco. Our review failed to identify how these payments were determined,or what, if anything, Kopper did to justify the payments. More importantly, inMarch 2001 Enron repurchased Chewco's interest in JEDI on terms Kopper apparentlynegotiated with Fastow (during a time period in which Kopper had undisclosed interestswith Fastow in both LJM1 and LJM2). Kopper had invested $125,000 in Chewco in1997. The repurchase resulted in Kopper's (and a friend to whom he had transferred partof his interest) receiving more than $10 million from Enron.

Re: To the Members of the Board of DirectorsEnron Corporation
http://i.cnn.net/cnn/2002/LAW/02/02/enron.report/powers.report.pdf

-  *Anonymous* says:
July 31, 2008 at 2:34 pm

Defense Goes After Fastow's 'Greed' With a Vengeance
http://ro-a.redorbit.com/news/business/421277/defense_goes_after_fastows_greed_with_a_vengeance/index.html

Daniel Petrocelli, the lead attorney for Skilling, launched his cross-examination of former Enron CFO Andrew Fastow by mocking the witness for saying he was a "hero" who helped Enron meet its earnings targets every quarter. Instead, he told the jury of eight women and four men, Fastow stole millions and allowed his wife to file false tax returns, which ultimately resulted in her spending a year in jail.

"We are talking about greed, greed, greed," he said. "Greed for money. That's what drove you. Your greed was so great that you allowed your wife to go to prison."

For nearly four hours, Petrocelli hammered away at Fastow, asking for details about secret side deals between Enron and two private partnerships he controlled, side deals that netted him and a confederate, Michael Kopper, tens of millions of dollars. At one point, he showed Fastow a computer printout

showing that the sum of their illicit gains, unknown to Enron management, exceeded $120 million.

Petrocelli finished his cross-examination with the so-called Raptor arrangement, which was a vehicle used to take pieces of a business that were doing poorly and essentially hide them from investors and the public.

Fastow acknowledged that for awhile he explored marketing the idea to other businesses. Major companies, including Aeon of Chicago and GE Corp., had expressed interest in how the Raptors worked.

- *Anonymous* says:
July 31, 2008 at 2:42 pm

This seems on track:

"When you artificially inflate earnings, improperly book losses so you can sell stock or make earnings targets so you can make high salaries and bonuses, that is stealing," Fastow said. "I stole in other ways and that way. All that I'm saying is that we stole."

- *Anonymous* says:
July 31, 2008 at 2:51 pm

The most important question is, Who cares…?

Unless we can pin the disappearance of some pregnant mother or a teen drug addict on LEH, no one is going to give a crap.

I think that we all know that LEH and brethren are going to get away with it. These guys are smart. It's the stock holders that are morons and they're going to get just what they deserve.

Best regards,

Econolidious

- *S* says:
July 31, 2008 at 3:42 pm

Fuld – this is like the scene in A Few Good Men, with Jack playing the role of Fuld. For a guy whio is known as the Guerrilla and an intimidating control freak, is it remotely possible that he was not engineering this drive to expand the book? Can you picture him on the stand — did you order the move into subprime? DID YOU ORDER THE MOVE INTO SUBPRIME? the temptation is too great and the arrgoance to entrenched, he screams Fuld screams back – you're god damn right I did….

- *Anonymous* says:
July 31, 2008 at 4:00 pm

Your damn right I did…LOL, ROTFLMAO!

Re: "It's the stock holders that are morons"

Yes, and that includes mutual fund managers that hold stocks that have massive dilution. Let's be real, if your mutual fund is holding the next Enron, you either better wake up, which is way to late at this stage or get ready to be screwed, while your asleep! The fact that EPS has vaporized and the fact that option grants are increasing obviously points to both dilution of common shares and a cut in dividends. That cash burn impact is not going to be any easier during a recession when deflationary pressures will blow apart anything connected to crap like LEH, et al.

Where is the cash flow or value going to come from, when they have to keep selling their shares for less and less to raise cash for compensation and dividends?????

- *Anonymous* says:
August 1, 2008 at 10:21 am

seems like LEH needs an R3 AND a Lone Star subsidiary(speaking of which… was that subsidiary a new one set up to handle MER's purchase or has it been established in the past, with a business track record?)

from:
http://www.nypost.com/seven/08012008/business/lehman_shopping_mortgage_securities_122558.htm

"In a move similar to what Merrill Lynch has done, Lehman Brothers' CEO Dick Fuld is trying to shop tens of billions of dollars in mortgage securities on its balance sheet in order to reduce leverage at the embattled investment bank, The Post has learned."

and

"At the same time, speculation has emerged that Lazard has been hired to advise Lehman. Exactly what the boutique advisory firm has been hired to do could not be learned."

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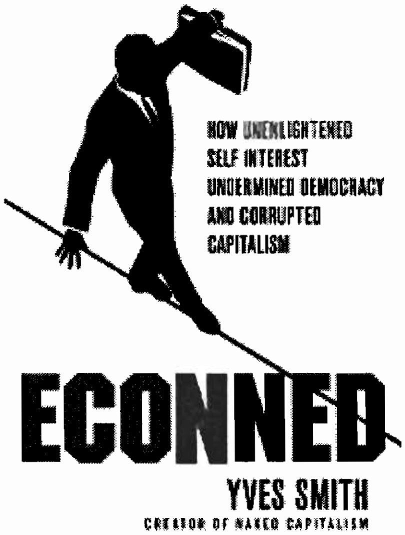

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